Opportunities Exist to Improve the Tip Rate Determination and Education Program

May 2001

Reference Number: 2001-30-076

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

May 8, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Opportunities Exist to Improve the Tip Rate Determination and Education Program

This report presents the results of our review of the Tip Rate Determination and Education Program. In summary, it appears the Tip Program contributed to an increase in tip reporting. However, it does not identify some non-compliance in tip reporting, nor is it consistently used to improve compliance. In addition, the Small Business/Self-Employed (SB/SE) Division needs to develop a comprehensive plan to transfer the program from the SB/SE Division's Compliance function to the Taxpayer Education and Communication function. Finally, future expansion plans should be re-examined due to systematic weaknesses in the program's strategy. We made five recommendations related to these issues.

The SB/SE Division's Compliance and Taxpayer Education and Communication functions agreed to the report's recommendations, and initiated corrective actions to address the issues we identified. Management's comments are incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the Internal Revenue Service managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

Table of Contents

Executive Summary

Tips to employees, such as waiters and waitresses in restaurants, are taxable income. These employees are required to report their tip amounts to their employers, who are then required to report the amount of the tips to the Internal Revenue Service (IRS). Traditionally, a significant amount of non-compliance occurs in tipping-related industries. A recent IRS study[1] determined that the amount of tip income voluntarily reported in 1993 was less than half of the true tip amount, leaving over $9 billion of unreported tip income.

To address non-compliance, the IRS began the Tip Rate Determination and Education Program (Tip Program) in October 1993. This program is intended to be a non-enforcement method to increase tip-reporting compliance. The program is designed to have IRS field personnel make contact with individual restaurants in order to secure Tip Rate Determination Agreements (TRDA) or Tip Reporting Alternative Commitment (TRAC) Agreements. The TRDA requires the IRS and employer to work together to determine a mutually agreed upon amount of tips that employees generally receive and should report. TRAC Agreements require employers to emphasize education on the responsibilities of tip reporting to their employees.

The IRS identified the Tip Program as one of its seven National Compliance Strategies in 1997, and this strategy has continued through 2001. The Tip Program has three objectives:

- To increase the filing of Employer's Annual Information Return of Tip Income and Allocated Tips (Form 8027).
- To increase tip reporting by employers on their Employer's Quarterly Federal Tax Return (Form 941), and by employees on their Individual Federal Income Tax Return (Form 1040).
- To increase collection results from improved reporting.

The objectives of our review were to determine whether the Tip Program achieved its goal of effectively increasing taxpayer compliance, and whether the program violated taxpayers' rights.

[1] "The Effect of Tip Compliance Efforts on Tip Reporting," dated June 1999, Brooklyn District Office Research and Analysis (DORA) and Connecticut-Rhode Island DORA

Results

The amount of tip income reported to the IRS has consistently increased during the past 5 years. While we identified no instances in which the program violated taxpayers' rights, additional enhancements could be made to increase compliance, provide more consistent use of the program, ensure that the program is properly implemented in the new IRS organization, and expand the program to other industries.

The Tip Program Appears to Have Contributed to an Increase in Reported Tip Income

According to statistics gathered by the IRS' Office of Employment Tax Administration and Compliance, total tips reported on both Forms 941 and 8027 grew dramatically from 1994 to 1998, reaching $11.9 billion in 1998 on Forms 941and $7.03 billion on Forms 8027. During that same period, the number of Form 8027 filers grew slightly. While other reasons, such as an improved economy and more restaurants, likely contributed to the increase, the program appears to have had an impact on increased compliance. However, the IRS has no method to determine what amount of the increase was actually due to the implementation of the program.

The Tip Program Does Not Identify Some Employers Required to Report Tips

The IRS has no process in place to identify all business entities that may be required to file Form 8027. These businesses are also required to file Form 941 and include the amount of tip income received by employees. The Form 8027 is the recommended tool to identify restaurant establishments where tipping is customary and to ensure continued compliance in tip reporting. Through September 7, 2000, taxpayers filed 57,902 Forms 8027 for calendar year 1999. Because of late filings and filing errors, 3,091 (5 percent) of these forms were not included in the database distributed to the Examination function's district offices.[2] Therefore, these filers will not be included in the subsequent year's Form 8027 database, which the district offices use to identify potential non-compliant taxpayers.

The accuracy and completeness of two of the databases the IRS used to monitor the results of the program could be improved. In particular, there were 672 establishments listed as having agreements in the Form 8027 database, which were not listed as having

[2] Although the IRS ceased using "districts" to identify field operating units as of October 1, 2000, our review was initiated when the IRS still referred to geographic locations as districts. Therefore, this report will continue to refer to field locations as districts.

an agreement in the separate National TRAC/TRDA database. Inaccurate and incomplete management information can adversely affect program decision-making.

District Offices Do Not Consistently Use the Tip Program to Improve Compliance

Use of the Tip Program varies by district depending upon the resources applied to the program, district management prioritization, and practices used. Specifically, the number of restaurants with agreements ranged from 77 in 1 district to 613 in another district, and the number of examinations of employee tax returns ranged from 1 to 176. One of the three districts reviewed did not use the Form 8027 database as a primary source in determining potential non-compliance as recommended. One district only offered the TRAC but did not offer the TRDA Agreements, while the other two districts offered both types of agreements; however, one of those districts has not secured a TRAC or TRDA agreement in over two years. A contributing factor to these inconsistencies is that program oversight was limited to two National Headquarters program analysts, one responsible for the restaurant industry and the other for the hair and beauty industry. Without a consistent approach to using agreements and conducting examinations when necessary, the success of the program is not being maximized and taxpayers are not treated equally.

Effective Transition of the Tip Program to the New Taxpayer Education and Communication Function Is Questionable

The newly established Small Business/Self-Employed (SB/SE) Division includes a Taxpayer Education and Communication (TEC) function that is responsible for outreach activities relating to developing new, and maintaining existing, voluntary agreements for small business taxpayers. However, the TEC function has neither immediate plans nor adequate personnel to ensure the smooth transition of the Tip Program from the Division's Compliance function. In addition, TEC function officials do not know who will monitor and solicit future tip agreements that affect other IRS operating divisions. Finally, the TEC function anticipated hiring 215 employees by January 2001, and plans to be fully staffed by October 2002. At least some of these employees will be immediately responsible for assisting taxpayers during the "filing season" (the first three and one-half months of each calendar year), thus limiting their ability to solicit new and monitor existing agreements during this period.

Efforts to Expand the Tip Program Strategy to Other Industries Have Limitations

The IRS would like to further extend the Tip Program to all other industries where tipping is customary; however, actual time frames are yet to be determined for initiating these other programs. A significant challenge this expansion faces is that current activities within the Tip Program generally overlook contacting and executing agreements with small establishments, as this process is time and labor intensive. There is no national policy concerning a minimum employee threshold level. In fact, our review identified one district excluding restaurants with less than 50 employees from participation in the program. This practice of excluding very small restaurant businesses seems to contradict the stated expansion plans of the program to other industries, such as beauty and hair care, which are usually very small business establishments with few employees. Additionally, only restaurants with 10 or more employees are required to file Form 8027. These systemic limitations will further complicate the ability to identify non-compliant businesses that are small.

Summary of Recommendations

The Commissioner, SB/SE Division should work with the Business Systems Modernization Office's Change Control Board to include an automated reconciliation of Forms 941 and 8027 data to identify non-compliance in tip reporting and improve the accuracy of management information data. In addition, the importance of the Tip Program needs to be re-emphasized and adequate oversight needs to be provided. The Directors for TEC and Compliance need to develop a detailed plan to ensure the smooth transition of the Tip Program from the Compliance function to the TEC function in order to maintain continuity of the program and avoid taxpayer burden. Finally, the Commissioner, SB/SE Division should address concerns with the future strategy on expanding the Tip Program to other industries which customarily receive tips.

Management's Response: IRS management agreed with our recommendations and has initiated corrective actions that address the issues we identified. A complete copy of the response is attached to this report in Appendix IV.

Objectives and Scope

The objectives of this review were to determine whether the Tip Program effectively increased taxpayer compliance and whether the program violated taxpayers' rights.

The objectives of our review were to determine whether the Tip Rate Determination and Education Program (Tip Program) achieved its goal of effectively increasing taxpayer compliance, and whether the program violated taxpayers' rights.

To accomplish these objectives, we determined whether the:

- Internal Revenue Service (IRS) monitored the Tip Program's effectiveness.
- National Headquarters ensured that key district summary management information system data was accurate to enable the Small Business/Self-Employed (SB/SE) Division to measure the success of the Tip Program.
- IRS was threatening taxpayers it contacted for examination and if taxpayers were unknowingly allowing de facto examinations when entering agreements.
- The Tip Program increased taxpayer compliance in tip reporting.
- The IRS' plan for separating the Tip Program between the SB/SE Division's Taxpayer Education and Communication (TEC) and Compliance functions considered the potential effects on taxpayer burden and program efficiency.

We conducted fieldwork in the National Headquarters and in the Manhattan, Georgia and Houston Districts between August and December 2000.[1] We primarily limited the scope of our review to the restaurant

[1] Although the IRS ceased using districts to identify field operating units as of October 1, 2000, our review was initiated when the IRS still referred to geographic locations as districts. Therefore, this report will continue to refer to field locations as districts.

industry. This audit was performed in accordance with *Government Auditing Standards*.

Details of our audit objectives, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

Tips to employees, such as waiters and waitresses in restaurants, are taxable income. These employees are required to report their tip amounts to their employers, who are then required to report the amount of the tips to the IRS. Traditionally, a significant amount of non-compliance occurs in tipping-related industries. A recent IRS study[2] determined that the amount of tip income voluntarily reported in 1993 was less than half of the true tip amount, leaving over $9 billion of unreported tip income.

To address non-compliance, the IRS began the Tip Program in October 1993. This program was designed as a non-enforcement method of increasing tip-reporting compliance and requires IRS district personnel to make contact with individual restaurants in order to secure Tip Rate Determination Agreements (TRDA) or Tip Reporting Alternative Commitment (TRAC) Agreements. Furthermore, the IRS identified this area as one of its seven National Compliance Strategies in 1997, and this strategy has continued through 2001.

The Tip Program has three objectives:

- To increase the filing of Employer's Annual Information Return of Tip Income and Allocated Tips (Form 8027).
- To increase tip reporting by employers on their Employer's Quarterly Federal Tax Return

[2] "The Effect of Tip Compliance Efforts on Tip Reporting," dated June 1999, Brooklyn District Office Research and Analysis (DORA) and Connecticut-Rhode Island DORA

(Form 941), and by employees on their Individual Federal Income Tax Return (Form 1040).

- To increase collection results from improved reporting.

Under this program, employers agree to voluntarily participate in either a TRDA or a TRAC Agreement. A TRDA requires the IRS and the employer to work together to determine a mutually agreed upon amount of tips that employees generally receive and should report. TRAC Agreements require employers to educate their employees on the responsibilities of tip reporting.

The Form 8027 is an annual information return required from large food and beverage establishments. These establishments are defined as ones that serve food and beverages, customarily encourage tipping the employee, and employ 10 or more servers collectively working 80 hours or more during a typical business day. The purpose of Form 8027 is to provide a process whereby large food and beverage establishments can report both receipts from food and beverage operations and tips reported by employees.

Results

Overall, tip income reported to the IRS has increased. However, certain aspects of the Tip Program can be more effective.

The amount of tip income reported to the IRS has consistently increased during the past 5 years. While we identified no instances in which taxpayers' rights were violated because of the program, enhancements could: increase compliance, provide more consistent use of the program, and ensure that the program is properly implemented in the new IRS organization. In addition, the expansion of the Tip Program to other industries has some limitations.

The Tip Program Appears to Have Contributed to an Increase in Reported Tip Income

According to statistics gathered by the IRS' Office of Employment Tax Administration and Compliance (OETAC):

- Total tips reported on Form 8027 increased from $4.7 billion in 1994 to $7.03 billion in 1998.
- Total tips reported on Form 941 increased from $8.5 billion reported in 1994 to $11.9 billion in 1998.
- The number of Form 8027 filers grew from 55,793 in 1994 to 56,468 in 1998.

While other reasons such as an improved economy and more businesses have undoubtedly contributed to the increase, the Tip Program appears to have had an impact on increased compliance, as well. However, the IRS has no method to determine what amount of the increase was actually due to the implementation of the program.

The Tip Program Does Not Identify Some Employers Required to Report Tips

As previously stated, employees are required to report their tip amounts to their employers, who are then required to report the amount of the tips to the IRS.

The IRS maintains a database of businesses that file Form 8027. These businesses are also required to file Form 941. Districts use the Form 8027 database as a source for determining potential non-compliance in tip reporting by restaurants, as well as monitoring overall program efficiency.

While the IRS estimates that approximately 25 to 30 percent of businesses that should file Form 8027 do not do so, the SB/SE Division has no process in place to identify all entities which may be required to file it. Furthermore, there are no procedures to reconcile data from Form 8027 to Form 941. Finally, there are some inaccuracies in the Form 8027 database.

Some Forms 8027 are not entered into the database, or are not validated for accuracy

IRS Program Analysts stated that as of September 7, 2000, taxpayers had filed 57,902 Forms 8027 for calendar year 1999. However, the Form 8027 database distributed to the Examination function's district offices in July 2000 included only 54,811 Forms 8027. The 3,091 (5 percent) other forms were not included in the database because they were filed late or contained incorrect entries. As a result, these filers will not be included in the subsequent year's Form 8027 database, resulting in a temporary omission of potentially non-compliant taxpayers from the compliance program.

Taxpayers filing late will not be included in the subsequent year's Form 8027 database, temporarily omitting potentially non-compliant taxpayers.

Also, the IRS does not match and reconcile Forms 941 and 8027. Therefore, employers could file a Form 8027, but not report taxable tip income on Form 941. On the other hand, employers could file the Form 941 but not the required Form 8027, which the IRS needs to determine the accuracy of tip income on the Form 941.

In June 1998, IRS management submitted a Request for Information Services (RIS) for the development of an Office of Employment Tax Administration and Compliance Customer Service System. As proposed, this system would assist the Tip Program in incorporating certain IRS databases with real time linkages, allowing for research and analysis, taxpayer education/outreach, reports generation, and a number of other features. Examiners in the Tip Program would be able to add, append, and edit records, and perform analyses with download capability. This RIS would also have provided for the reconciliation of the Forms 941 and 8027.

Due to other higher priorities and the pending IRS modernization efforts, Information Systems did not make the programming changes requested in the RIS. In addition, the IRS modernization teams did not include this area in their Modernization Blueprint.

The Tip Program needs more accurate management information

Reliable management information is necessary to effectively manage a compliance program. Inaccurate and incomplete management information can adversely affect program decisions. Our review raised questions about the degree of accuracy and completeness of two important Tip Program data files.

The Examination function Tip Coordinator in one of the districts alerted us to errors in the Form 8027 database. Although we did not perform substantive testing of the database, our review confirmed the following types of errors.

We confirmed the existence of certain errors in the Tip Program's databases, but were unable to test for further errors.

- There were 672 establishments listed as having agreements in the Form 8027 database, which were not listed as having an agreement in the separate National TRAC/TRDA database.
- One establishment was listed twice on the Form 8027 database.

These errors represent a small portion of the overall database, and we are not projecting these results for the entire population. However, management information is most beneficial when it is accurate and complete.

Due to the volume of data represented in the database and the absence of reconciliations between the TRAC/TRDA and the Form 8027 databases, we were unable to test for further errors. However, similar problems may exist in other districts' databases.

In addition, the number of tip agreements and establishments in district level records differs from that in records at the National Headquarters. The National Headquarters analyst receives quarterly updates on the TRAC/TRDA Agreements secured and terminated. Our review identified the following discrepancies.

Analysis of District and National Headquarters TRAC/TRDA Databases

	TRAC/TRDA Agreements per District Records	TRAC/TRDA Agreements per National Headquarters	Difference
District # 1	524	490	34 (6%)
District # 2	613	607	6 (1%)
District # 3	97	118	21 (18%)

	Establishments per District Records	Establishments per National Records	Difference
District # 1	629	629	0
District # 2	1308	1308	0
District # 3	331	272	59 (18%)

Source: Tip Program District and National Headquarters Database Records (August-December 2000)

Totals represent agreements and establishments for both the restaurant, and hair and beauty, industries.

These data discrepancies went undetected because management did not have a process in place to ensure the validity of the databases. The data is much too voluminous for the analyst to manually reconcile, and no automated reconciliation exists.

Recommendations

The Commissioner, SB/SE Division should:

1. Work with the Business Systems Modernization Office's Change Control Board to include within future information systems plans an automated

reconciliation of Forms 941 and 8027 data to identify non-compliance in tip reporting. If the programming cannot be accomplished in the near future, the Commissioner, SB/SE Division should consider a "stop gap" comparison to determine the extent of non-compliance, and determine whether any specific enforcement strategy is necessary.

Management's Response: Management agreed to consider two options: creating a Masterfile account on the filing of Forms 8027; and resubmitting a RIS to develop various on-line databases (Forms 941, Forms 8027, and TRAC/TRDA participants), which would be linked to each other to allow for cross-checking among the databases.

In the interim, given budget restraints, management stated they will work with the Brooklyn DORA Research Office to help them manually run a crosscheck with filed Forms 8027 and Forms 941.

2. Consider developing a multi-user software application, which will provide district Tip Program personnel the capability to add/append records, edit fields, generate reports, and perform comparative analyses of agreements/establishments. This could limit inconsistencies and duplications between districts and help ensure reliable data at the National level with respect to accomplishment of program goals.

   Management's Response: Management agreed to submit a RIS requesting a multi-user software program. The application will allow data associated with the Tip Program to be processed simultaneously with other employment tax nonfiler programs.

   In the interim, IRS management will send instructions to field offices stressing the need for accurate information when submitting quarterly reports.

District Offices Do Not Consistently Use the Tip Program to Improve Compliance

As previously stated, employees are required to report their tip amounts to their employers, who are then required to report the amount of the tips to the IRS. The Tip Program was initiated to improve and ensure this compliance by employers and employees in industries where tipping is customary. Enforcement, such as examining tax returns of employees who do not report their tips, is a necessary tool to ensure compliance in tip reporting, whether in a TRAC/TRDA Agreement or not.

Prior to October 1, 2000, districts were precluded from performing employer-only examinations when non-compliance was identified. Instead, the IRS only examined the employees receiving the tips. Districts with limited resources to conduct examinations would have had difficulty enforcing compliance, particularly when these examinations would involve multiple employees.

Resources made available to the program differed between the districts reviewed, and impacted the volume of program activity.

The use of the Tip Program differed significantly depending upon resources made available and district management's approach to implementing the program. The following chart shows the inconsistencies in obtaining agreements and conducting examinations in the three districts reviewed.

Analysis of Employee Tip Examinations per District

District	Number of Restaurant Agreements	Number of Employee Tip Examinations
District #1	421	176
District #2	613	11
District # 3	77	1

Source: Tip Program District Office Database Records (August-December 2000)

The following examples of inconsistent practices contributed to the differences shown in the table above.

- District #1 conducted examinations for a variety of reasons stemming from employee non-compliance with the terms of the employer agreement, to the employer not signing an agreement and not increasing compliance. District #2 would have conducted examinations under similar circumstances, but decided to apply resources to other returns with compliance-related issues. District #3 had a policy of not examining employers who were solicited to enter agreements.
- District #1 had the Tip Coordinator and Revenue Agents soliciting Tip agreements. Districts #2 and #3 only had the Tip Coordinator soliciting agreements.
- District #3 did not offer TRDAs, and District #1 had neither solicited nor secured a restaurant agreement in over 2 years. District #2 had been continually soliciting TRAC/TRDA agreements for over 2 years.
- Districts #1 and #3 used the Form 8027 database, as recommended by Tip Program Policy, as the primary source in determining potential non-compliance, but District #2 did not use it as the primary source. In lieu of the Form 8027 database, District #2 used county health department records as its primary source for tip agreement solicitations. Although we did not evaluate the effectiveness of District #2's approach, it may be a helpful addition to the Form 8027 database, but should not be the primary source.

A contributing factor to these inconsistencies is that National Headquarters oversight is limited to two program analysts, one responsible for the restaurant industry and the other for the hair and beauty industries. Each has the responsibility to administer the program nationally in addition to ensuring districts adhere to program guidelines and procedures.

Periodic and timely monitoring of the Tip Program is critical to help identify and prevent inconsistencies in solicitations, agreements and enforcement. Without a consistent approach to using agreements and conducting examinations when necessary, the success of the program is not being maximized and taxpayers are not treated equally.

Recommendation

3. The Commissioner, SB/SE Division needs to re-emphasize the importance of the Tip Program and ensure that adequate oversight is provided. Such oversight and periodic monitoring could help ensure policies and procedures are being applied uniformly with respect to enforcement actions and solicitations.

   Management's Response: Management agreed to re-emphasize the Tip Program at future executive meetings. In addition, management will implement field assistance visits, providing policy guidance with program objectives.

Effective Transition of the Tip Program to the New Taxpayer Education and Communication Function Is Questionable

As part of the IRS' reorganization, the TEC function is responsible for outreach activities relating to developing new, and maintaining existing, voluntary agreements for small business taxpayers. However, the TEC function has neither immediate plans nor adequate personnel to ensure a smooth transition of the Tip Program from the SB/SE Division's Compliance function. Consequently, the Compliance function is continuing to operate and manage the Tip Program in Fiscal Year 2001.

The reason for the delay in transferring the Tip Program is that the TEC function is the last major segment of the SB/SE Division to be brought into full operation. Consequently, personnel were not available to conduct advance strategic planning in this area. A senior district manager was assigned the task of preparing a plan for this transition at the end of calendar year 2000, but substantive progress had not been made as of the completion of our fieldwork.

Some TEC function employees will be unavailable to solicit or monitor tip agreements.

The TEC function anticipated hiring 215 employees by January 2001, and plans to be fully staffed by October 2002. However, some employees hired will be immediately responsible for assisting taxpayers during the "filing season" (the first three and one-half months of each calendar year), thus limiting their ability to solicit new agreements and monitor existing agreements during this period.

Therefore, the filing season has the potential of both burdening the taxpayers who have agreements and limiting the effectiveness of the program. Taxpayers with agreements will be burdened when TEC function employees are unavailable to assist them with questions concerning their agreements during the filing season. The effectiveness of the program will be reduced because the TEC function employees will not be able to monitor existing agreements during the filing season, even after being fully staffed.

In addition, the TEC function will only provide assistance to the SB/SE Division with respect to the Tip Program. However, OETAC records indicate over 60 percent of the current TRAC/TRDA Agreements fall under the IRS' Large and Mid-Size Business (LMSB) Division. Further, some taxpayers in the IRS' Tax Exempt and Government Entities (TE/GE) Division may receive tips in the course of their employment.[3] This is significant because officials in the TEC function do not know who will monitor and solicit future tip agreements that affect the LMSB and TE/GE Divisions.

Current TRAC/TRDA Agreements are industry-specific, (i.e., Food and Beverage, Hair Salons, and Gaming) and

[3] Examples would include employees of military Officers' Clubs and Native American casino businesses.

the sole responsibility of the SB/SE Division. The TEC function is considering advocating the division of responsibility for agreements among the SB/SE, LMSB, and TE/GE Divisions based on the type of taxpayer. Tip Program personnel have expressed concern that this approach may cause taxpayer burden since the size of restaurants (i.e., their assets) can vary from year to year, placing the taxpayer under a different IRS division.[4] Therefore, restaurants having questions may not know what division to contact from year to year.

Recommendation

4. The Director, TEC, in conjunction with the Director, Compliance, needs to develop a detailed plan that will provide a smooth transition of the Tip Program from the Compliance function to the TEC function. This plan needs to address agreements crossing organizational lines (LMSB, TE/GE), as well the effects filing season activities have on current and future solicitations.

   Management's Response: Management established a joint team consisting of TEC and Compliance function personnel to address the transition of the Tip Program. The team plans to have recommendations completed by June 30, 2001, so that operational and program responsibility will reside with the TEC function by October 1, 2001.

Efforts to Expand the Tip Program Strategy to Other Industries Have Limitations

The IRS has identified the Tip Program as one of its seven National Strategies and would like to further

[4] For example, if a restaurant grows substantially during one year, such that it moves from the "small business" category to the "mid-size" business category, the IRS would shift it from the SB/SE Division to the LMSB Division.

extend the Program to all other industries where tips are customary and should be reported as income on tax returns. These industries include hair and beauty workers, taxi drivers and parking lot valets. Actual time frames are yet to be determined for initiating some of these industry-specific programs. However, based upon current procedures in the restaurant industry, there are several reasons why the IRS may not be able to effectively expand the Tip Program to other industries.

The Tip Program generally overlooks small businesses with less than 10 employees.

- While there is no national policy concerning a minimum employee threshold, the Tip Program generally overlooks contacting and executing agreements with small establishments (i.e., those with less than 10 employees). However, one of the three districts reviewed is not soliciting agreements with businesses that have less than 50 employees. This local policy is due to the labor and time intensive nature of individual solicitation and employer contract. This practice of excluding very small restaurant businesses seems to contradict the stated expansion plans of the program to other industries, which may include many very small business establishments with few employees.
- Form 8027 is legislatively required to be filed only by restaurants with more than 10 employees, thereby excluding small restaurants and other industries. Use of Form 8027 in other industries will not be possible without legislative change.
- Some of these other industries, such as the hair and beauty industry, do not always have typical employer/employee relationships. Instead, these industries sometimes utilize owner-operators who receive the summary of their annual income on Miscellaneous Income (Form 1099) rather than Wage and Tax Statement (Form W-2), and therefore their "pay" is not reported on Form 941.

These systemic limitations will complicate the ability of the IRS to identify non-compliant businesses in these industries and to successfully expand the Tip Program.

Recommendation

5. While SB/SE Division officials are generally aware of these limitations, the Commissioner, SB/SE Division needs to ensure that obstacles to expand the program are addressed, prior to resource allocation and commitment.

   Management's Response: Area offices were advised to set a tolerance level in identifying which taxpayers would be contacted for participation in the program. Specifically, Form 8027 would be used for the restaurant industry in identifying the worst cases of tip underreporting. For other targeted industries not required to file Form 8027, management instructed field offices to review Forms 941.

Conclusion

While the Tip Program appears to have contributed to the increased reporting of tips, it does not ensure full compliance in tip reporting. SB/SE Division management does not provide sufficient oversight to ensure the effective administration of program policies and guidelines. Additionally, the expansion strategy of the Tip Program into other tipping-related industries may have systemic problems because of reporting information limitations and the small individual size of many of these business establishments.

Appendix I

Detailed Objectives, Scope, and Methodology

The overall objectives of this review were to determine whether the Tip Rate Determination and Education Program (Tip Program) achieved its goal of effectively increasing taxpayer compliance, and whether the program violated taxpayers' rights. To achieve these objectives we:

I. Determined if the Internal Revenue Service (IRS) monitored the Tip Program's effectiveness.

   A. Determined how National Headquarters was monitoring the Tip Program nationally. Ascertained what data district offices provided and whether the information was validated for accuracy.

   B. Interviewed the Tip Coordinators in the Manhattan, Georgia, and Houston districts regarding the application of the Tip Program and determined whether districts were using any local policies.

   C. Evaluated the methodology employed to determine the effectiveness of the Tip Program at the district level.

   D. Determined how the districts were monitoring participants and non-participants in the program.

   E. Determined if management at either the National Headquarters or selected districts maintained management information regarding the correlation between non-participation in the program and examination rates.

   F. Requested a list of 25 taxpayers electing not to participate in the FiscalYear (FY) 1999 and FY 2000 Tip Programs and determined if an examination indicator was present and evaluated the rationale for the examination decision.

   G. Randomly sampled 25 Tip Rate Determination Agreements (TRDA) and 25 active Tip Reporting Alternative Commitment (TRAC) Agreements in each district reviewed, out of the 1,234 total agreements in the three districts, to determine whether the Small Business/Self-Employed (SB/SE) Division's Compliance function:

      1) Management reviewed and approved all agreements.

2) Staff consistently monitored both TRDA and TRAC Agreements.

3) Staff took appropriate actions when non-compliance was identified.

II. Determined whether National Headquarters was ensuring that key district summary management information system data was accurate to enable the SB/SE Division to measure the success of the Tip Program.

A. Interviewed district tip coordinators to determine the procedures employed in tracking TRAC/TRDA Agreements. In addition, determined what, if any, reviews were performed to ensure the accuracy of quarterly statistics submitted to National Headquarters.

B. Evaluated the methodology used to accumulate and compile management information regarding agreements at the national and selected district levels, and determined whether effective controls were in place to ensure data reliability:

1) Determined whether districts were consistently applying the same methodology in compiling data submitted to National Headquarters.

2) Compared district Management Information System (MIS) data on a sample basis to current TRAC/TRDA Agreements.

3) Determined what reconciliations were performed with regard to current agreements secured before submitting the data to National Headquarters.

III. Determined whether the IRS was threatening taxpayers that it contacted with examination, and if the taxpayers were unknowingly allowing de facto examinations when entering TRDAs.

A. Determined the policies and practices used in the selected districts to determine the taxpayer's tip rate.

B. Utilizing the sample of 25 TRDAs selected in Objective I, step 8, determined:

1) What records the taxpayer provided to the Revenue Agent to obtain the TRAC/TRDA Agreement.

2) If comments were made in the history sheet concerning other areas of the return.

3) If the taxpayer's return was referred to for examination after a TRAC/TRDA review was conducted.

C. Identified the FY 2000 methodology used to identify potential businesses for inclusion in the program at each selected district and determined whether there were any deviations from this methodology.

IV. Determined whether the Tip Program increases taxpayer compliance in tip reporting.

A. Interviewed responsible Office of Employment Tax Administration and Compliance (OETAC) personnel to determine the methodology used in determining the success of the Tip Program.

B. Determined whether FY 1998 to FY 2000 national statistics on total tips reported on Employer's Quarterly Federal Tax Return (Form 941) identified an increase in compliance related to the Tip Program.

V. Determined whether the IRS' plan for separating the program between the SB/SE Division's Taxpayer Education and Communication (TEC) and Compliance functions considered the potential effect on taxpayer burden and program efficiency.

A. Interviewed OETAC personnel to determine the impact of the program reorganization.

B. Interviewed responsible TEC design team personnel to determine the methodology for the TRAC/TRDA separation and what the plans were to ensure a smooth transition.

Appendix II

Major Contributors to This Report

Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business & Corporate Programs)
Parker F. Pearson, Director
Gary L. Swilley, Audit Manager
Joseph F. Cooney, Senior Auditor
Doris A. Cervantes, Auditor

Appendix III

Report Distribution List

Commissioner N: C
Deputy Commissioner N:DC
Director, Compliance, Small Business/Self-Employed Division S:C
Director, Taxpayer Education and Communication, Small Business/Self-Employed Division S:T
Director, Legislative Affairs CL:LA
Chief Counsel CC
Office of Management Controls N:CFO:F:M
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
National Taxpayer Advocate TA
Audit Liaison: Commissioner, Small Business/Self-Employed Division S

Appendix IV

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

APR 23 2001

RECEIVED
APR 23 2001

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Joseph Kehoe
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Opportunities Exist to Improve the Tip Rate Determination and Education Program

Thank you for the opportunity to review and comment on the methodology and conclusions reached in your report. We appreciate your review and suggestions on ways we can improve tip income reporting through voluntary compliance agreements.

The Tip Rate Determination and Education Program has demonstrated that outreach and education efforts can increase voluntary compliance.

Current information shows just how successful this program has been:

- Total tip wages reported, from all industries, on Forms 941, *Employer's Quarterly Federal Tax Return*, increased from **$8.5 Billion** in 1994 to over **$14 Billion in tax year 2000**.
- Contributions to corresponding items, such as FICA tax, federal income tax, state unemployment tax, workers' compensation insurance, state income tax, and any other tax or benefit that is based on wages increase as tip reporting increases.

An Office of Research study confirmed a positive correlation between the Tip Program and increases in reported tips. While the IRS has focused on only three main tipping industries in the past, this initiative has had a ripple effect on all other industries where tipping is customary.

In a further study, we verified the Tip Program caused more tips to be reported among participants than non-participants. By analyzing the tip rate trends, we measured the effectiveness of this program, and quantified the increase in revenue this initiative generated.

Field assistance visits will ensure we follow policy procedures and administer the Tip Program consistently throughout the IRS. We will implement measures immediately to ensure any data shared with field offices contains accurate information.

Again, thank you for the opportunity to respond to your report. If you have any questions, please contact Thomas Burger, Headquarters Program Manager for Employment Tax, at (202) 622-2479.

Attachment

Attachment

Response to Draft Treasury Inspector General for Tax Administration (TIGTA) Audit Report *"Opportunities Exist to Improve the Tip Rate Determination and Education Program"*

Recommendation/Finding:
The Commissioner, SB/SE Division should:

1. Work with the Business Systems Modernization Office's Change Control Board to include within future information systems plans an automated reconciliation of Forms 941 and 8027 data to identify non-compliance in tip reporting. If the programming cannot be accomplished in the near future, the Commissioner, SB/SE Division should consider a "stop gap" comparison to determine the extent of non-compliance, and determine whether any specific enforcement strategy is necessary.

Assessment of Cause:
Form 8027 is not a Master File account. If Information Systems (IS) can program this information return to be processed as a Master file, we can create a crosscheck from the Form 941 to the Form 8027. Thus, if a taxpayer were to report tip wages on Form 941, the program would make a crosscheck to find out whether that taxpayer had filed a Form 8027. If we found no matching Form 8027, then we could generate a notice inquiring about the nonfiled return.

Corrective Action:
We will consider two solutions:

- Creating a Master File account on the filing of Form 8027.
- Re-submitting the RIS (request for information system) to have the various databases (Forms 941, Forms 8027, and TRAC/TRDA participants) on-line and linked to each other to allow crosschecking among these databases.

In the meantime, given budget restraints, we will work with the Brooklyn DORA Research Office to help us manually run a crosscheck with filed Forms 8027 and Forms 941.

The Office of Employment Tax is implementing a nonfiler strategy to help identify the markets where employment taxes may not be fully reported. Through the NAICS (North American Industry Classification System) we can identify potential nonfilers. Just recently, we analyzed Forms 941 using the NAICS for employers in the beauty and barber industry, looking at those reporting tip wages and those reporting no tip wages. The preliminary results showed **$3.2 Billion** as potential unreported tip wages in this industry alone.

2

<u>Implementation Date:</u>
Completed: __________ Proposed: <u>7/30/2001</u>

<u>Responsible Official(s):</u>
Commissioner, Small Business/Self Employed Division

<u>Corrective Action Monitoring Plan:</u>
Once the RIS or Master File programming is approved, a copy and approval confirmation will be submitted to the SB/SE Division Commissioner.

***NOTE:** Please refer to the Addendum section starting on page 10 that will provide more details on other concerns raised on the audit report pertaining to this recommendation.*

3

Recommendations/Findings:

The Commissioner, SB/SE Division should:

2. Consider developing a multi-user software application, which will provide district Tip Program personnel the capability to add/append records, edit fields, generate reports, and perform comparative analyses of Tip agreements/establishments. This could limit inconsistencies and duplications between districts and help ensure reliable data at the National level with respect to accomplishment of program goals.

Assessment of Cause:

The TRAC/TRDA database has over 36,000 entries. Each quarter, the 33 tip coordinators responsible for submitting their area's report, add more entries, or make deletions if employers go out of business or drop out of the program. Often tip coordinators change the data fields causing inconsistencies in how they submit reports. Headquarters sent written instructions on how to input the data and the entries required to be submitted in the database report. Currently, the tip coordinator position is a collateral duty assignment. Once TEC assumes outreach responsibility from Compliance, we will create a position for outreach specialist. This new position will decrease inconsistencies in how we submit the quarterly reports.

The muti-user software application mentioned in the report is one that was already submitted through a RIS. However, due to limited funds, the request was denied. Working within these budget constraints, we have in the past used available sources, such as our Brooklyn DORA research site to help us analyze trends in identifying nonfilers, stop-filers, or decreases in compliance levels.

Corrective Action:

We will submit a RIS requesting a multi-user software program. This RIS will allow us to process data associated with the Tip Program and other employment tax nonfiler programs. The application would automate certain aspects of the program based on a series of individual operations, or studies, to test voluntary compliance regarding specific employment tax issues, to analyze the results of each study (or probe), and to make recommendations for any improvements in the overall employment tax administration system.

Until we complete the RIS programming, Headquarters Office of Employment Tax will send instructions stressing the need for accurate documentation when submitting quarterly reports. We will discuss this at the Employment Tax CPE in July of this year.

Implementation Date:

Completed: ____________

Proposed: RIS -- 7/30/2001
Written guidance: 4/30/2001

Responsible Official(s):
Commissioners, Small Business/Self Employed

Corrective Action Monitoring Plan:
Once the RIS or Master File programming request is approved, a copy and approval confirmation will be submitted to the SB/SE Division Commissioner.

NOTE: *Please refer to the Addendum section starting on page 10 that will provide more details on other concerns raised on the audit report pertaining to this recommendation.*

5

Recommendations/Findings:

3. The Commissioner, SB/SE Division needs to reemphasize the importance of the Tip Program and ensure that proper oversight is provided. Such oversight may limit the inconsistencies between the number of agreements reported in the districts and those reported by the National Headquarters. In addition, periodic monitoring could help ensure policies and procedures are being applied uniformly with respect to enforcement actions and solicitations.

Assessment of Cause:

The Tip Program has been in existence since 1993. In June 1996, this initiative was selected as one of ten national strategies. We sent written instructions to the field, and included it in the operations plan. We have also promoted it through various Executive and Mangers meetings. However, due to the reorganization, there has been a tremendous turnover in management. We have allocated fifty DESYs (direct examination staff years) throughout the IRS, toward this initiative. We sent a memo to the field detailing the DESY allocation in 1996, and a memo dated November 13, 2000. We based the allocation on the market share identified for their specific area.

Corrective Action:

We will re-emphasized the Tip Program at future Executive meetings. In addition, we will have Executives from SB/SE and TEC emphasize this strategy during their opening remarks at the upcoming Employment Tax CPE.

Headquarters Office of Employment Tax will implement field assistance visits and review their program support. Field visits will provide policy guidance on the Tip Program and other Employment Tax Programs so that each office in the new organization is familiar with the program objectives. Guidance will include how to achieve a proper balance in securing agreements, identifying nonfilers, and enforcement actions on the most egregious cases of noncompliance.

Implementation Date:

Completed: ______________ Proposed: 7/23/2001

Responsible Official(s):

Commissioners, Small Business/Self-Employed Division

6

Recommendation/Findings:

4. The Director, TEC, in conjunction with the Director Compliance, needs to develop a detailed plan that will provide a smooth transition of the Tip Program from the Compliance function to the TEC function. This plan needs to address agreements crossing organizational lines (LMSB, TE/GE) as well the effects filing season activities have on current and future solicitations.

Assessment of Cause:

The Commissioner asked us to sanction out the outreach aspects of the Tip Program so there would be no perception of threat of audits when IRS personnel solicited participation in the voluntary compliance agreements. For this reason, we formed the new office, Taxpayer Education and Communication. TEC will have the functional responsibility of developing and maintaining all voluntary compliance agreements, including those currently under Compliance. TEC will be responsible for all outreach activity related to this initiative. TEC is still working out transition issues as they assume outreach aspects of this program.

Corrective Action:

Headquarters Office of Employment Tax has been working closely with the various design teams from TEC, including the current Transition Team. The Office of Employment Tax held a meeting on October 20, 2000, with representatives from the impacted operating divisions, to brief them on the program and its reassignment to TEC. This briefing included a briefing package on the issues and suggestions for a smooth transition into TEC.

Program management and responsibility will remain with Compliance until leadership agrees that TEC has the ability to take on the pre-filing components. In preparation for that, a joint team consisting of TEC and Compliance personnel met in January 2001. Their goal was to review all the pre-filing activities currently done by Compliance personnel (Revenue Officers, Revenue Agents, Tax Auditors). The team had the support of outside consultants in developing a structured approach to determine which work would be placed in TEC. On March 12, 2001, they presented their recommendations to the top leadership in TEC and Compliance. They agreed with the report's recommendation that the Tip Rate Determination and Education Program would be one of the first transitioned to TEC. Leadership asked the team to develop a transition plan detailing the steps needed to accomplish this goal. Specifically, they asked the team for plans that would address: training, measures, communication strategy (both internal and external customers), organizational structure, change management and other issues affecting the workforce. The team, with representatives from the National Treasury Employees Union (NTEU), has been studying these aspects of work transition and has already made some preliminary recommendations[7] to improve the current process. For example:

- Measures to include a quality assurance process to provide feedback to territories on performance, consistency and timeliness of actions
- A centralized monitoring process to provide consistency and help ensure policies and procedures are being uniformly applied.
- A sharing of management accountability between TEC and Compliance leadership so that program changes will be seamless to the external customers

The team plans to have their recommendations completed by June 30, 2001 with a goal to have the necessary steps completed so that work and program responsibility will reside with TEC by October 1, 2001. The movement of work depends on successful negotiation and implementation agreements with NTEU.

Currently, we have hired 200 of the 1200 Tax Specialists for the TEC organization. We will add additional personnel in June (approximately 375 Tax Specialists and some management personnel). While TEC employees have supported this year's filing season efforts and will assist in the future to ease the impact on Compliance operations, the team is developing a strategy to ensure sufficient coverage for the program during the filing season. In addition, other factors may impact this such as:

- Further hiring in Wage and Investment Division that may eliminate the need for some TEC employees to work to support the filing season and
- Centralized monitoring using employees outside TEC that would allow for monitoring of the agreements to continue.
-

Finally, the team will address the question of who will monitor and solicit future tip agreements that cross operating divisions (LMSB and TE/GE) in their recommendations due June 30, 2001. They are developing a coordination and communication strategy to prevent ensure external customers have no disruption in service or prevent workload inefficiencies.

Implementation Date:

Completed: Compliance actions – **X**

Completed TEC actions: ______________ Proposed: 7/30/01

Responsible Official(s):

Commissioner, Small Business/Self Employed

8

Recommendation/Findings:

5. While SB/SE officials are generally aware of these limitations, the Commissioner, SB/SE Division needs to ensure that obstacles to expand the program are addressed, prior to resource allocation and commitment.

Assessment of Cause:

The report states that efforts to expand the Tip Program strategy to other industries have limitations. The report said we had not determined actual time frames and had no policy concerning a minimum employee threshold.

Recognizing the tremendous financial burden tip examinations imposes on both employers and employees, the IRS looked for other ways to increase compliance. The IRS initiated the **TRD/EP Program** (October 1993) to improve and ensure tax compliance by employers and employees in the food and beverage industry. Currently, we applied only 50 DESYs to this program. Approximately 133 IRS personnel, nationwide, work on this program.

The IRS and a coalition of representatives form the food and beverage industry jointly developed the TRAC agreement (June 1995). Shortly after releasing this document, representatives from the beauty and barber industry requested a similar document for their market. We released the Beauty and Barber TRAC agreement in June 1997 along with the Gaming TRDA.

We did not publicize the Beauty and Barber TRAC agreement until late 1998. In 1997, tip wages reported on Forms 941 totaled $69 million. At the end of 1999, tip wages related to this industry were over $93 million.

In December 2000, we released new agreements to allow all other industries where tipping is customary to participate in voluntary compliance agreements.

Corrective Action:

We developed the Tip Rate Determination and Education Program because tip examinations were very labor intensive. We advised area offices were advised to set a tolerance level, based on their geographical location, to identify which taxpayers we would contact for participation in the program. That is, for the restaurant industry, a review of the Form 8027 would help to identify potential unreported tip income and select the worst cases of tip underreporting. For other industries, we told IRS personnel to review the Forms 941 filed for the particular industry on which they were focusing their efforts.

Recognizing the Beauty industry employed[9] both employees and independent contractors, our marketing efforts focused on both types of workers. The office of Employment Tax in their trade show presentations, would comment and distribute tax information on the tax responsibilities for both categories of workers. A publication and VHS video were developed that discuss these responsibilities.

Participating at trade shows, conventions, and accepting speaking engagements gives us opportunities for publicizing our compliance efforts. As the study done by Brooklyn DORA shows, the Tip Program has had a ripple effect on all industries, and tip wages for all industries have steadily increased, directly attributable to the program.

Now that TEC will be accepting responsibility for outreach efforts we can apply more resources this initiative and allow us to focus Compliance resources on enforcement for those taxpayers that refuse to comply with the tax law.

As used in identifying unreported income in the beauty industry, the **NAICS** will also help us identify unreported tip income for all other tipping industries.

The SB/SE Strategic Assessment Report elevates efforts to increase employment tax compliance to Strategy #2. Additional resources allocated to this strategy will allow us to develop action plans for identifying nonfilers within this program and implement necessary enforcement efforts.

Implementation Date:

Completed: _____X________ Proposed: ________________

Responsible Official(s):

Commissioner, Small Business/Self Employed Division

ADDENDUM

Recommendation 1 - Additional details to report findings:

The Tip Program Does Not Identify Some Employers Required to Report Tips

Limited funds have prevented us from providing more effective tools to aid field personnel in identifying potential employers with employees that receive tip income. Originally, the Office of Employment Tax purchased software, costing $25,000, that provided field offices with a listing of restaurant establishments located in their areas. While this software, The American Business Listing (ABL) did help identify the potential restaurant universe, it was not cost-effective.

Implemented actions:

The Office of Employment Tax identified other more cost-effective sources than the ABL software. We sent written notice to the field offices and conducted formal classroom training on other available sources such as: Midwest Automated Compliance System (MACS), Restaurant Chain Operator's Guide, Zagat's Guide, commercial phone books, State or Health department licensing databases, internet listings, and sales tax returns.

While the Form 8027, *Employer's Annual Information Return of Tip Income and Allocated Tips*, is the primary tool that the IRS uses to identify unreported tip income and also identify potential Form 8027 nonfilers, it is not the only tool. We instructs our personnel to look to other sources such as comparing IDRS data with state and/or local sales tax information, state or local licensing information, local industry guides, association membership listings, and those mentioned above. These sources also help to identify business owners in other tipping industries with employees that are not accurately reporting their tip income.

Compliance will partner with TEC to promote education to business owners required to file Form 8027, in an effort to increase the filings and decrease the error rate. We recently submitted form revisions to the Office of Tax Forms and Publications that will help reduce the complexity of this form and decrease the filing error rate. Identifying nonfilers will be a key topic at the upcoming Employment Tax CPE in July 2001. In addition, Employment Tax, Headquarters, will be schedule field assistance visits to monitor progress in identifying nonfilers and encourage IRS personnel to sponsor educational seminars at local industry association meetings.

11

Recommendation 2 - Additional details:
Concern: Some Forms 8027 are not entered into the database or are not validated for accuracy.

Forms 8027 not entered into the database -- Form 8027 is an information return and is not on master file. The Andover Service Center creates the Form 8027 data file. Andover sends this readable file to the Brooklyn DORA analyst to disseminate area information to Area Tip Coordinators. This process occurs only once a year, generally in July.

We decided to request the database as early as possible to provide any new information to field personnel and allow them to have full use of data for the rest of the year. The number of returns filed late or with errors is small when compared to the overall data.

Some Forms 8027 are not validated for accuracy -- As mentioned in the report, certain data disks provided to the field contained inaccurate information. This occurrence was an isolated incident due to the run not being reviewed by a qualified programmer, as one was not available at the time. We will require a qualified programmer review and test for accuracy all future data disks before sending the information to field personnel.

Increased educational outreach on the requirement to file the form, provided in conjunction with the new office, *Taxpayer Education and Communication*, will help to decrease the error rate and thereby increase the number of correctly filed returns. We will implement safety measures into the Form 8027 database and verify that the data is accurate, prior to distributing it to field personnel.

Recommendation 3 - Additional details:

Number of tip agreements and establishments in district (area) level records differs from that in records at the National Headquarters. This discrepancy is often caused when the business name is not entered exactly the same for all locations. A business may have more than one business location, such as in a large corporate chain. The Tip Coordinator sometimes fails to validate the entries input into the report. The Headquarters' analyst will instead use the employer's identification number to prevent any duplicate entries for what is the same entity.

The database contains over 36,000 entries, all manually input. Each quarter we input or delete additional entries if employers go out of business or drop out of the program.

Tip Coordinators received guidance at a recent Tip Training class this past January on how to ensure error-free entries into the database. We will emphasize this guidance again at the upcoming Employment Tax CPE in July.